

West Michigan Risk Management Trust

99-7-783

2003-04

Comprehensive Annual Financial Report

For the Period Ended June 30, 2004

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11/8/04

West Michigan Risk Management Trust

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Introductory Section



**West Michigan
Risk Management
Trust**

Executive Board

Dave Biller
Chairperson

Connie Gillette
Vice-Chairperson

Dennis Brooks
Secretary

Steve Lampe
Treasurer

Member Districts

Byron Center
Caledonia
Comstock Park
Delton-Kellogg
East Grand Rapids
Forest Hills
Fruitport
Grandville
Godfrey-Lee
Gull Lake
Jenison
Kalamazoo RESA
Kent City
Kentwood
Lowell
Northview
Rockford
South Haven
Sparta
Spring Lake
Thornapple-Kellogg
Wyoming
Zeeland

October 1, 2004

Dear Pool Member:

The West Michigan Risk Management Trust (WMRMT) is an organization comprised of member school districts located in West Michigan. Formed in July 1990 to provide casualty and liability insurance. The membership has increased from the original 13 member districts to the current 23 members. The WMRMT insurance program also includes boiler and machinery coverage, risk management, third-party administration of claims, and loss prevention programs.

The WMRMT is a trust voluntarily established pursuant to Section 2 of Chapter 124 (P.A. 1951, No. 35, Section 2) and Section 5 of Chapter 124 (P.A. 1982, No. 138, Section 5) of the Michigan Compiled Laws for the purpose of providing participating school districts such services and security as are approved by the Board of Directors and permitted by the laws of the State of Michigan. Article 5 of the Interlocal Agreement and Bylaws established a Board of Directors and Officers of the Pool. Bylaws stipulate that the Board of Directors would determine the general policy of the Pool and that the chairperson would serve as the chief policy officer of the Pool.

In the fall of 1989, the Kent County Superintendent's Association expressed an interest in forming a self-insurance pool for the Kent County area. The Kent County Superintendent's Association is an organization located in West Michigan that includes all K-12 school districts in Kent County.

The WMRMT was established to create a cooperative atmosphere in which to provide:

- Increased or improved property and liability coverage's
- Reduced premiums
- Improved loss prevention programs
- Increased protection against extraordinary swings in insurance premiums
- The ability of Pool members to share in the interest income from their premiums
- Security against paying premiums several times greater than actual losses

Based on current entry procedures, new prospective members to WMRMT submit five-year loss histories with substantiating data along with exposure information on property values, vehicles, teachers, and student populations. The Executive Committee reviews this information to determine eligibility and compatibility with the current Pool members, with a 35 percent loss ratio as an established criteria for admissions, and makes a recommendation to the Board of Directors. The geographic scope of the trust includes an approximate 60-mile radius from Grand Rapids, Michigan.

West Michigan Risk Management Trust

FINANCIAL MANAGEMENT

The WMRMT is a risk-sharing, self-insurance pool with a self-insurance retention (SIR) of \$175,000 per occurrence, which is protected by excess insurance of adequate amounts over the SIR. The loss fund contribution is based on property values, vehicles, teachers, student population, and other pertinent data as reviewed annually. The loss fund is secured by unlimited aggregate coverage in excess of the fund in accordance with Section 7 (a) (iv) of P.A. 138 of 1982 of the Michigan Compiled Laws.

The treasurer of the WMRMT serves as a fiscal agent for the Pool and is responsible for setting up and maintaining the appropriate accounting system for the Pool operations.

The WMRMT accounting records for general operations are maintained on an accrual basis, with the contributions (assessments) from members recorded as revenue when submitted and measurable expenditures are recorded when the services are received and the liabilities incurred.

Article 8 of the bylaws provides that the Board of Directors shall approve a preliminary budget for the administration of WMRMT by June 30 of each year. Upon review and submission, the Board shall annually adopt the budget, which includes the annual contributions (assessments) to the member school districts.

Financial reports are produced showing budget and actual expenditures by line item. These reports are reviewed monthly by the Finance Committee and the Board of Directors. Individual line items are reviewed and analyzed for budgetary compliance.

Bylaws and state statutes require annual audits of the books of WMRMT. Plante & Moran, PLLC has been contracted to provide the auditing service. Tillinghast-Towers Perrin has been contracted to provide an actuarial service as required by the state. The use of accounting principles generally accepted in the United States of America and Governmental Accounting Standard Board (GASB) No. 10 and GASB No. 30, an amendment of GASB No. 10, are contained in this report.

West Michigan Risk Management Trust

FINANCIAL MANAGEMENT (Continued)

The first year aggregate loss fund was set at \$335,000 and funded at the 100 percent level, the second year, 1991-1992, aggregate loss fund was set at \$333,663 and funded at the 100 percent level, the third year, 1992-1993, aggregate loss fund was set at \$339,132 and funded at the 100 percent level, the fourth year, 1993-1994, aggregate loss fund was set at \$405,000 and funded at the 100 percent level, the fifth year, 1994-1995, aggregate loss fund was set at \$453,000 and funded at the 100 percent level, the sixth year, 1995-1996, aggregate loss fund was set at \$450,000 and funded at the 100 percent level, the seventh year, 1996-1997, aggregate loss fund was set at \$532,500 and funded at the 100 percent level, the eighth year, 1997-1998, aggregate loss fund was set at \$650,000 and funded at the 100 percent level, the ninth year, 1998-1999, aggregate loss fund was set at \$650,000 and funded at \$620,000, the tenth year, 1999-2000, the aggregate loss fund was set at \$725,000 and funded at \$650,000, the eleventh year, 2000-2001, the aggregate loss fund was set at \$775,000 and funded at \$700,000, the twelfth year, 2001-2002, the aggregate loss fund was set at \$775,000 and funded at the 100 percent level, the thirteenth year, 2002-2003, the aggregate loss fund was set at \$974,000 and funded at the 100 percent level, and in the fourteenth year, 2003-2004, the aggregate loss fund was set at \$1,000,000 and funded at the 99.9 percent level.

Fund balances consisting of claim reserves and bank cash balances, are invested in order to maximize earnings in each fund. WMRMT's Interlocal Agreement states that the investments shall be in accordance with those practices permitted by Michigan School Law as permitted under the Insurance Code of 1956, Act 219 of the Public Acts of 1956, as amended. All investments are made in recognition of liquidity needs for operating expenses and claim payments.

Revenue for the 2003-2004 fiscal year totaled \$3,329,268, of which \$20,390 was interest earnings.

Expenses for the 2003-2004 fiscal year totaled \$3,290,591 as follows:

| | |
|---|--------------|
| Excess insurance premiums | \$ 2,083,490 |
| Claims payments | \$ 322,592 |
| Addition to unsettled claims and claims incurred but not reported | \$ 621,829 |
| Contract services | \$ 98,939 |
| Operating expenses | \$ 163,741 |

Each year funding is accomplished by allocation of cost per member, and the member costs are developed through a formula that accounts for factors such as property values, student and vehicle counts, and loss experience. Each member is responsible for their portion of the loss fund on a proactive (up-front) basis. Since the losses continue to be funded at a maximum exposure level, there are no requirements for post-loss funding.

West Michigan Risk Management Trust

COST CONTAINMENT

WMRMT's Claims/Risk Management Committee evaluates claims and makes recommendations to the Board of Directors on policies or procedures needed to reduce risk in certain areas. The Committee also arranges loss prevention management seminars.

Using contracted services for loss prevention, third-party claims administration, and risk management has also allowed the trust to control claims and costs.

WMRMT also has contractual arrangements with Gallagher Basset Services, Inc. for the Third-Party Claim Administration and Management. This agreement calls for claims management, loss control assistance, monthly loss runs, and other claims administration services, including regular attendance at claim committee meetings and full Board meetings.

WMRMT has a contractual arrangement with Arthur J. Gallagher & Co. for renewal data gathering, market submission, proposal summaries, and other Risk Management administrative support to the Board. These relationships are integral to the operation of WMRMT.

SUMMARY

The independent auditor's report issued by Plante & Moran, PLLC and the actuary report provided by Tillinghast-Towers Perrin is included in this report.

This report supports the philosophy of providing improved coverages and reducing costs that lead to the creation of WMRMT.

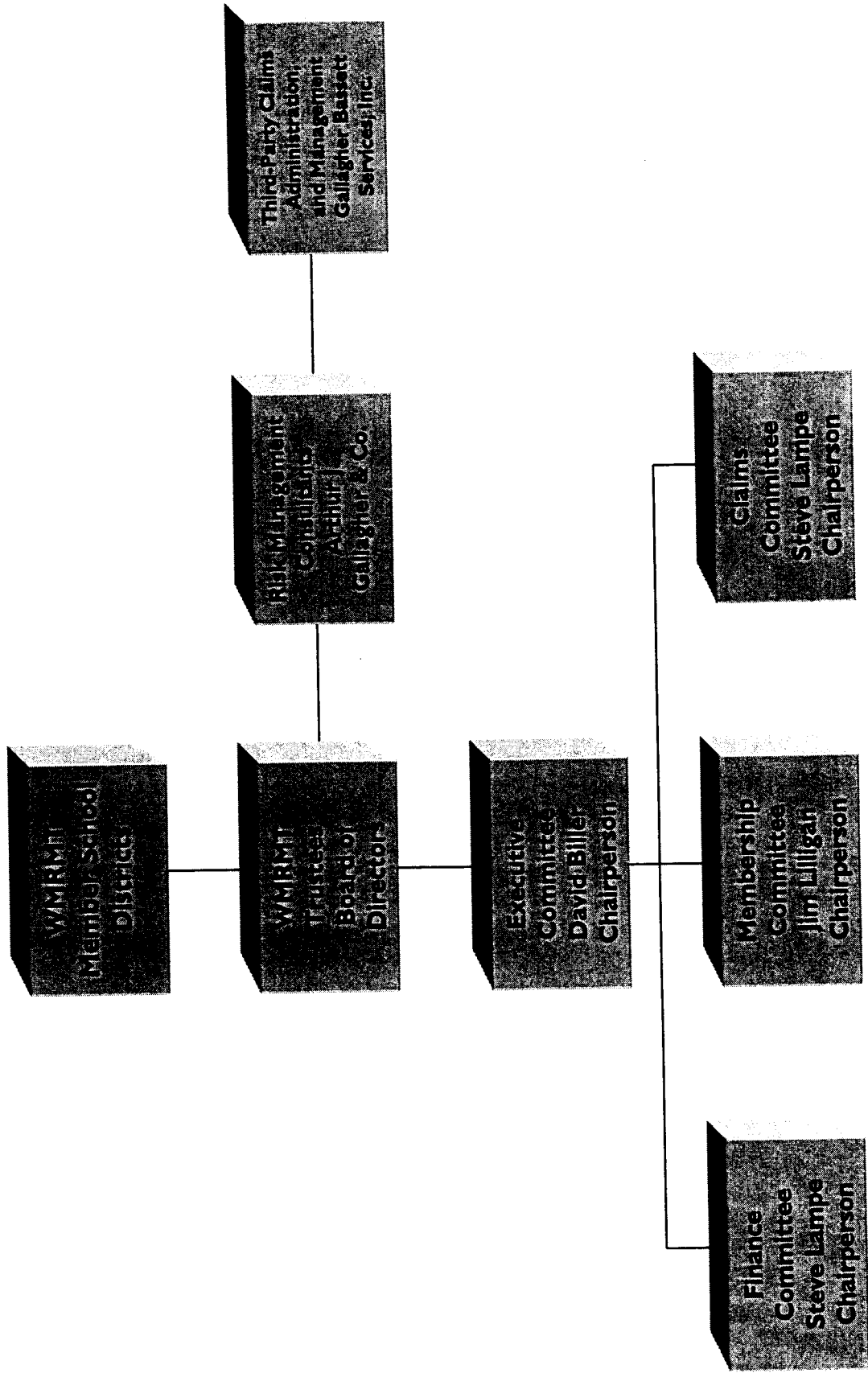
WMRMT continues on a course of controlled growth and expanded loss control with a focus on reducing losses.



David Biller, Chairperson
Executive Committee
West Michigan Risk Management Trust

West Michigan Risk Management Trust

Organization Chart



West Management Risk Management Trust

Executive Officers and Board of Directors As of June 30, 2004

EXECUTIVE COMMITTEE

Board Chairperson.....David Biller – Wyoming
Board Vice Chairperson.....Connie Gillette – Lowell
Board SecretaryDennis Brooks – Kalamazoo RESA
Board Treasurer.....Steve Lampe – Kent City
Board Chairperson of Claims/
Risk Management Committee.....Steve Lampe – Kent City
Chairperson of Membership Committee.....James Lilligan – Jenison

BOARD OF DIRECTORS

BOARD MEMBERS

DISTRICTS

| | |
|-------------------------|--------------------|
| Howard Napp | Byron Center |
| Jim Olsen | Caledonia |
| Roxanne Claxton | Comstock Park |
| Ron Archer | Delton-Kellogg |
| Doug Derks..... | East Grand Rapids |
| James Pitcher..... | Forest Hills |
| Carole Nyenhuis | Fruitport |
| James Cassis | Godfrey Lee |
| Tim Raymer..... | Grandville |
| Barbara Khaja | Gull Lake |
| James Lilligan | Jenison |
| Dennis Brooks..... | Kalamazoo RESA |
| Steve Lampe..... | Kent City |
| Steve Zakem | Kentwood |
| Connie Gillette | Lowell |
| Debra Reese..... | Northview |
| Mike Cuneo..... | Rockford |
| J. David Myers | South Haven |
| Randy Neelis | Sparta |
| Deb Miller | Spring Lake |
| Alice Jansma | Thornapple Kellogg |
| David Biller..... | Wyoming |
| David Van Ginhoven..... | Zeeland |

Financial Statements

West Michigan Risk Management Trust

Financial Report
With Required Supplemental Schedules
June 30, 2004

West Michigan Risk Management Trust

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Independent Auditor's Report

Board of Directors
West Michigan Risk Management Trust

We have audited the balance sheet of West Michigan Risk Management Trust, as of June 30, 2004 and 2003, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Michigan Risk Management Trust at June 30, 2004 and 2003, and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

October 1, 2004

A member of



A worldwide association of independent accounting firms

11/8/04

West Michigan Risk Management Trust

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statement of Net Assets, the Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the West Michigan Risk Management Trust (Trust). This section, the Management's Discussion and Analysis, is intended to provide an overview of the Trust's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Trust's financial position, it is important to recognize the mission of the Trust. From a financial perspective, the Trust's general objectives are to formulate, develop, and administer, on behalf of the members, a program of insurance, to obtain lower costs for that coverage, and develop a comprehensive loss prevention program. As of June 30, 2004, 23 Michigan school districts participate in the Trust.

The key financial statistics for the Trust would be based on total anticipated claims to be paid in a specific policy year as compared to the contributions received from members, otherwise known in the industry as a "loss ratio."

| | Policy Year Ended | | |
|--------------------------------|-------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Total contributions | \$ 3,307,375 | \$ 2,952,320 | \$ 2,124,218 |
| Total estimated claim payments | 906,000 | 734,506 | 586,066 |
| Loss ratio | 27.4% | 24.9% | 27.6% |

Total estimated claim payments for each policy year consists of claim payments and an estimate of unsettled claims estimated by a third-party administrator and an estimate of claims incurred but not reported by an independent actuary. The methods of making such estimates are continuously reviewed by management, and according to industry practice, any changes to these estimates will have an impact on reported results of future periods. Claim payments can change significantly from period to period because the ultimate amount paid for claims is dependent on the frequency of claims filed as well as other events such as jury decisions, court interpretations, and legislative changes.

West Michigan Risk Management Trust

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

To reduce the Trust's exposure to large specific claims, the Trust enters into excess insurance contracts to recover specific claim losses in excess of stated amounts in the excess insurance contract. Currently, the per claim limit totals \$175,000.

The Trust's total assets, liabilities, and net assets have fluctuated from a year ago, which is due to the 20 percent increase in total expenses in 2004. 100 percent of assets consist of cash and cash equivalents. Approximately 98 percent of total liabilities consist of reserve for claims. Due to the nature of property/casualty claims and the related reporting and settlement processes of claims, it is anticipated, based on historical averages of the Trust, that approximately 43 percent of the estimated reserve for claims will be settled within one year. The analysis below presents a comparison of the Trust's current year financial position to the prior year:

| | 2004 | 2003 | % Change |
|----------------------------------|---------------------|---------------------|----------|
| Total assets (all current) | \$ 2,200,336 | \$ 1,544,029 | 42.5% |
| Current liabilities | 519,688 | 369,888 | 40.5% |
| Long-term liabilities | 646,255 | 178,425 | 262.2% |
| Total liabilities | 1,165,943 | 548,313 | 112.6% |
| Net assets (unrestricted) | 1,034,393 | 995,716 | 3.9% |
| Total liabilities and net assets | <u>\$ 2,200,336</u> | <u>\$ 1,544,029</u> | 42.5% |

West Michigan Risk Management Trust

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

The following table shows the major components of income from operations for the current year, compared to the prior year:

| | 2004 | 2003 | % Change |
|-------------------------------------|------------------|-------------------|---------------|
| Income | | | |
| Member contributions | \$ 3,307,375 | \$ 2,952,320 | 12.0% |
| Interest income | 20,390 | 26,203 | -22.2% |
| Other income | 1,503 | 3,534 | -57.5% |
| Total income | 3,329,268 | 2,982,057 | 11.6% |
| Expenses | | | |
| Total provision for claims | 944,421 | 761,698 | 24.0% |
| Total operating expenses | 2,346,170 | 1,977,975 | 18.6% |
| Total expenses | 3,290,591 | 2,739,673 | 20.1% |
| Total Increase in Net Assets | \$ 38,677 | \$ 242,384 | -84.0% |

The increase in operating expenses is a result of a significant increase in the excess insurance premiums for 2004. Total provision for claims, as noted above, is dependent on many factors and will change from year to year based on these factors.

Economic Factors and Next Year's Rates

The expected rates charged by the Trust for member contributions for the next fiscal year are expected to increase approximately 3 percent. All other operating expenses are expected to remain consistent with amounts reported in 2004. The provision for claim payments is expected to be consistent with historical trends and we are unaware of any economic events or legislative events that would have significant impact on the operations of the Trust.

Contacting the Trust's Management

This financial report is intended to provide our members and regulators with a general overview of the accountability for the money it receives. If you have questions about this report, or need additional information, we welcome you to contact Steve Lampe, Finance Manager, West Michigan Risk Management Trust, at 616-678-7714.

West Michigan Risk Management Trust

Statement of Net Assets

| | | June 30 | |
|--|--|----------------------------|----------------------------|
| | | 2004 | 2003 |
| Assets | | | |
| Cash and cash equivalents (Note 2) | | \$ 2,200,336 | \$ 1,540,640 |
| Accounts receivable | | <u>-</u> | <u>3,389</u> |
| Total assets | | <u>\$ 2,200,336</u> | <u>\$ 1,544,029</u> |
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Accounts payable | | \$ 25,688 | \$ 29,888 |
| Current portion of reserve for claims (Note 3) | | <u>494,000</u> | <u>340,000</u> |
| Total current liabilities | | 519,688 | 369,888 |
| Long-Term Liabilities - Reserve for claims, net of current portion (Note 3) | | <u>646,255</u> | <u>178,425</u> |
| Total liabilities | | 1,165,943 | 548,313 |
| Net Assets - Unrestricted | | <u>1,034,393</u> | <u>995,716</u> |
| Total liabilities and net assets | | <u>\$ 2,200,336</u> | <u>\$ 1,544,029</u> |

West Michigan Risk Management Trust

Statement of Revenue, Expenses, and Changes in Net Assets

| | Year Ended June 30 | |
|---------------------------------------|----------------------------|--------------------------|
| | 2004 | 2003 |
| Income | | |
| Member contributions | \$ 3,307,375 | \$ 2,952,320 |
| Interest income | 20,390 | 26,203 |
| Other income | <u>1,503</u> | <u>3,534</u> |
| Total income | 3,329,268 | 2,982,057 |
| Expenses | | |
| Provision for claims (Note 3): | | |
| Payments | ↓ 322,592 | 692,354 |
| Addition to reserve for claims | ↑ 621,829 | 69,344 |
| Reinsurance premiums (Note 4) | 2,083,490 | 1,757,631 |
| Service agent fees | 98,939 | 84,067 |
| Administrative expenses: | | |
| Professional fees | 20,600 | 21,007 |
| Appraisal service | 2,729 | - |
| Claims management | 114,524 | 79,138 |
| Loss control | 3,801 | 4,268 |
| Other | <u>22,087</u> | <u>31,864</u> |
| Total expenses | <u>3,290,591</u> | <u>2,739,673</u> |
| Increase in Net Assets | 38,677 | 242,384 |
| Net Assets - Beginning of year | <u>995,716</u> | <u>753,332</u> |
| Net Assets - End of year | <u>\$ 1,034,393</u> | <u>\$ 995,716</u> |

West Michigan Risk Management Trust

Statement of Cash Flows

| | Year Ended June 30 | |
|--|---------------------|---------------------|
| | 2004 | 2003 |
| Cash Flows From Operating Activities | | |
| Cash received from members | \$ 3,310,764 | \$ 2,948,931 |
| Cash paid for claims | (322,591) | (692,353) |
| Cash paid to suppliers and others | (2,348,867) | (1,979,553) |
| Net cash provided by operating activities | 639,306 | 277,025 |
| Cash Flows From Investing Activities | | |
| Interest income received | 20,390 | 26,203 |
| Net Increase in Cash and Cash Equivalents | 659,696 | 303,228 |
| Cash and Cash Equivalents - Beginning of year | 1,540,640 | 1,237,412 |
| Cash and Cash Equivalents - End of year | \$ 2,200,336 | \$ 1,540,640 |

A reconciliation of increase in net assets to net cash flows provided by operating activities is as follows:

| | Year Ended June 30 | |
|--|--------------------|-------------------|
| | 2004 | 2003 |
| Increase in net assets | \$ 38,677 | \$ 242,384 |
| Adjustments to reconcile increase in net assets to net cash from operating activities: | | |
| Interest income | (20,390) | (26,203) |
| (Increase) decrease in assets: | | |
| Accounts receivable | 3,389 | (3,389) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (4,200) | (5,112) |
| Reserves for claims | 621,830 | 69,345 |
| Net cash provided by operating activities | \$ 639,306 | \$ 277,025 |

There were no significant non-cash investing, capital, or financing activities during the years ended June 30, 2004 and 2003.

West Michigan Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note I - Nature of Entity and Significant Accounting Policies

West Michigan Risk Management Trust (Trust) was established July 1, 1990, under the laws of the State of Michigan as a governmental group risk retention trust. The Trust provides a single multi-peril contract under which the members are covered for various types of risk including: property (all risk), general, and automobile liability and loss and physical damage to automobiles, mobile equipment, EDP software, fine arts and other miscellaneous property, crime, and boiler machinery. Membership in the Trust is open to all school districts in western Michigan, of which 23 currently participate.

The Trust provides risk management, consisting of compensating members for losses, costs, and expenses related to the stated coverage's and using the funds contributed by members to defend any member of the trust against stated liability or loss. Membership in the Trust is considered after a formal request supported by a resolution from the Board of Education of the applying school district. Any member joining the Trust is required to remain a member for a minimum of three full years. A member may withdraw from the Trust after the member's initial three-year term by giving nine months' prior written notice.

Trust underwriting and rate setting policies are established after consultation with excess insurance underwriters and actuaries. Members are given 30 days notice to make annual contributions to the Trust. The annual contributions are based on a final budget approved by the Board of Directors.

The Trust uses the accrual method of accounting. Contributions from members, which are calculated by the Trust, are recorded as revenue. Claim losses, along with excess insurance premiums, service fees, training program expense, and administrative expenses, are recorded as expenses. The estimated total cost of claim losses is accrued based on the estimate of claims that ultimately will be filed for an insurance period. The revenue, including investment income, and expenses for each self-insurance year are accounted for separately to determine excess equity or funding deficits. To the extent contributions finally are deemed to exceed claim losses and other costs, excess amounts will be refunded to members based on total premiums paid in an individual policy year. If necessary, funding deficits in individual policy years will be recovered through additional member contributions assessed to members participating in that policy year.

Cash and Cash Equivalents - The Trust considers all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

West Michigan Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Reserve for Claims - The reserve for claims represent the estimated liability for unpaid insurance losses and related expenses from reported claims and claims incurred but not reported. Changes to estimates are reflected in earnings currently.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures in the financial statements. Actual results could differ from those estimates. Significant estimates exist relating to the reserve for claims as described in Note 3.

Tax Status - Premium and investment income of the Trust is tax exempt under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the financial statements.

Note 2 - Deposits

The Trust's deposits, which are shown on the balance sheet as cash and cash equivalents, were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits-in-transit) of \$2,192,855 and \$1,528,007 on June 30, 2004 and 2003, respectively. Of these amounts, \$100,000 was covered by federal depository insurance and \$2,092,855 and \$1,428,007 was uninsured and uncollateralized at June 30, 2004 and 2003, respectively.

The Trust believes that, due to the dollar amounts of cash deposits and the limits of FDIC (and/or other) insurance, it is impractical to insure all bank deposits. As a result, the Trust evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Reserve for Claims

The estimated reserve for unsettled claims filed is provided by the third-party administrator. The reserve for claims incurred but not reported is estimated by an independent actuary based upon the Trust's historical experience of claims incurred prior to June 30, 2004. The estimates reflect the best judgment as to the potential for claims to increase beyond the amounts already paid and reserved on filed claims. It is at least reasonably possible that a material change in the estimate could occur within the near term and thus the actual claims paid may be substantially different than these estimates. Any future adjustments to these amounts will affect the reported results of future periods.

West Michigan Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Reserve for Claims (Continued)

The following summarizes the reserve for claims at June 30, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|-------------------|
| Claims filed at June 30 that remain unsettled as of that date | \$ 608,304 | \$ 118,523 |
| Estimate of claims relating to periods prior to June 30 not filed as of that date, that are expected to be filed in the future | <u>531,951</u> | <u>399,902</u> |
| Total | <u>\$ 1,140,255</u> | <u>\$ 518,425</u> |

The following represents changes in reserve for claims for the years ended June 30, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|-------------------|
| Reserve for Claims - Beginning of year | \$ 518,425 | \$ 449,080 |
| Incurred Claims and Claims Adjustment Expenses | | |
| Provision for claims in the current year | 906,000 | 819,000 |
| Increase (decrease) in provision for claims incurred in prior years | <u>38,422</u> | <u>(57,301)</u> |
| Total incurred claims and claims adjustment expenses | 944,422 | 761,699 |
| Payments | | |
| Claims and claims adjustment expenses paid for claims incurred in the current year | 286,122 | 454,491 |
| Claims and claims adjustment expenses paid for claims incurred in prior years | <u>36,470</u> | <u>237,863</u> |
| Total payments | <u>322,592</u> | <u>692,354</u> |
| Reserve for Claims - End of year | <u>\$ 1,140,255</u> | <u>\$ 518,425</u> |

West Michigan Risk Management Trust

Notes to Financial Statements June 30, 2004 and 2003

Note 3 - Reserve for Claims (Continued)

The following, based on historical trends of the Trust, summarizes the anticipated settlement of claims at June 30, 2004 and 2003:

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|-------------------|
| Claims anticipated to be settled within one year | \$ 494,000 | \$ 340,000 |
| Claims anticipated to be settled in excess of one year | <u>646,255</u> | <u>178,425</u> |
| Total reserve for claims | <u>\$ 1,140,255</u> | <u>\$ 518,425</u> |

Note 4 - Excess Insurance Coverage

The Trust uses excess insurance agreements to reduce its exposure to large aggregate and specific losses. These agreements allow the Trust to recover losses in excess of aggregate and specific coverage's specified in the agreements; however, the primary liability of the Trust is not discharged for the risks covered by these agreements. The Trust does not report claims liabilities expected to be paid under these agreements unless it is probable that those liabilities will not be covered and paid by excess insurance agreements. Premiums ceded under these agreements during the years ended June 30, 2004 and 2003, were \$2,083,490 and \$1,757,631, respectively. Amounts deducted from reserve for claims for expected recoveries under these contracts totaled approximately \$415,000 and \$615,000 at June 30, 2004 and 2003, respectively.